



GOODS & SERVICES TAX: INDIRECT TAX REFORM IN INDIA

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ABSTRACT

This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. Here stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has been discussed in this paper as the background, salient features and the impact of GST in the present tax scenario in India. As such, light is also thrown on how GST differs from the existing indirect taxes and its advantages over them in terms of ease in collection and how it brings out the underground activities that are not taxed by the existing taxes. This paper also focuses on the potential consequences and the hurdles that India may face due to Goods & Services Tax. Since the concept of fiscal federalism is nestled by the GST, my paper also explains how taxes will be distributed between the centre and the state. The impact on manufacturer and consumer states is also investigated in this paper.

KEYWORDS: GST, Indirect Tax, Fiscal Federalism, Tax Reform.

Introduction

From the 2000-year-old decree by Caesar Augustus that the entire world should be taxed; taxes were also levied by other European empire in various forms to fund the military as well as civil expenditure. Being a compulsory contribution, tax is imposed on the subjects of a state, by government or by the proper authority. Tax is compulsory in the sense that failure to pay is punishable by law. The taxes are to be paid periodically as determined by the taxing authority, to meet the general expenses of the public. Forming a major part of the public revenue, the taxes don't reciprocate benefits only to those who pay the taxes. In India, however, there are evidences of taxation from Manu Samriti and Arthashastra but modern system of taxation took flight only in 20th century. Since GST is an indirect tax, it is pertinent to study the evolution of indirect taxation in India.

Indirect Taxation: Evolution in India

The term "indirect taxes" generally refers to taxes levied on the basis of production, sale or purchase of goods such as import and export duties, excises, and sales taxes. Since the impact and incidence of tax is on different persons i.e. the tax can be shifted, they are called Indirect taxes. Indirect Taxes such as excise duty was collected on liquor and salt during Mauryan period, while the Mughals and the British assertively taxed salt, sugar, cloth, leather, and dairy products. A beginning was made towards a modern excise system when duty was imposed on cotton yarn in 1894. Gradually, it included motor spirit in 1917 and kerosene in 1922. Post independence, a variety of indirect taxes like Sales Tax, Customs Duties, Excise Duties, Service Tax and VAT began to be levied, increasing the tax base in India.

Goods & Services Tax

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below. Country Australia France Canada Germany Japan Singapore Sweden New Zealand Rate of GST 10% 19.6% 5% 19% 5% 7% 25% 15% World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax.

According to the 122nd CAB, the term 'GST' means "any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption." while Services means 'anything other than goods'.

Indirect Taxation Reforms Prior to GST

In 1935, tax on sales of goods was made a provincial subject. The state of Madras introduced Sales Tax in 1939, Punjab in 1941 while other states followed. Introduction of value added tax (VAT) in India was also suggested by L.K. Jha. Indirect Taxation Enquiry Committee was formed in 1976 to suggest reforms that enable picking out the loopholes in indirect taxation in India. It submitted its recommendations in 1978 consequent upon which, a Modified Value Added Tax (MODVAT) was introduced on March 1, 1986. Since MODVAT was levied only on few commodities, Raja J Chelliah headed another committee that was formed on August 29, 1991. Meanwhile Service tax was introduced in 1994. Chelliah recommended the introduction of VAT at the manufacturing level covering all goods; The recommendations were accepted and on April 01, 2000 MODVAT gave way to Central Level Value Added Tax (CENVAT). By 2005, all states of India introduced VAT, following Haryana which was the first to do it in 2003.

Objectives of GST

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property.

Salient features of the GST model

Salient features of the proposed model are as follows:

- (I) The GST shall have two components: one levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
- (II) The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
- (III) The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
- (IV) Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.
- (V) Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
- (VI) Ideally, the problem related to credit accumulation on account of refund

of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output.

(VII) The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.

(VIII) Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

Benefits of GST

1. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. CST will be removed and need not pay. At present there is no input tax credit available for CST.
3. Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
4. Uniformity of tax rates across the states.
5. Ensure better compliance due to aggregate tax rate reduces.
6. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
7. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.
8. GST is structured to reduce manufacturing costs. This makes exports more competitive.
9. It facilitates hassle free supply of goods on account of reduction of stoppage time at check posts.
10. GST also means cheaper goods; fairer prices for consumers

Negative Aspect

- It is not a single taxation system but a dual tax on a single transaction of sale and service.
- Lot of administrative expenditure will have to be undertaken. There would be an increase in paper work and compliance costs.
- Cheaper imports would adversely affect make-in-India campaign.
- Credit benefits will be applicable only if proof of payment by the seller is furnished.
- States with high consumption of Goods and Services will have better revenues. The Manufacturing states will have to be compensated. One-size-fits-all policy is archaic.

Conclusion

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST... One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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